



## ARIZONA STATE RETIREMENT SYSTEM

# Financial Horizons

SUMMER 2003

### INSIDE THIS ISSUE:

<b>ASRS Calendar</b>	<b>3</b>
<b>Legislative Review</b>	<b>5</b>
<b>Investment Rates of Return</b>	<b>6</b>
<b>Permanent Benefit Increase</b>	<b>6</b>
<b>Return to Work Program</b>	<b>7</b>

## CONTRIBUTION RATE INCREASE TAKES EFFECT JULY 1

**B**eginning July 1, 2003, Arizona State Retirement System members will see an increase in payroll deductions for their retirement and long term disability programs. Following are some typical questions and answers pertaining to the new contribution rate:

**Question:** *Will all ASRS members have to pay more out of their paychecks beginning July 1?*

**Answer:** Yes, all member employees who are contributing to the ASRS for their retirement will see an increase in the pension contribution rates effective July 1, 2003. There will also be a slight increase for the long-term disability benefit.

**Q.** *Why? What is causing this increase?*

**A.** The downturn in the stock market has hurt the ASRS, just as it has hurt other investors. Additionally, the Arizona Legislature in recent years has approved a number of retirement benefit enhancements, which have increased liabilities. In addition, over the past several years when earnings were high,

contribution rates were reduced below actual cost levels and employees and employers enjoyed savings of more than a billion dollars each. This is the first increase in contribution rates in 10 years.

**Q.** *So how much more money will be taken out of my paycheck?*

**A.** The contribution rate will increase from the current 2 percent to 5.2 percent for the pension plan, and from 0.49

**Please turn to page 2**

## MESSAGE FROM THE DIRECTOR

### Governor, ASRS Recognize State Employees

Like any good organization, what makes the ASRS function efficiently is its people. We have a staff dedicated to customer service, a priority of not only the Director's Office, but our Board.

Our benefits advisors, employer representatives and call-center staff strive to provide our members with the best possible service. Just one example: On a recent outreach meeting to a member employer, the Kayenta Unified School District in northern Arizona, car trouble many miles from a service station led to our benefits advisors delay to a planned meeting for future retirees. A call to the school district advising them that our representatives would be late led to school employees driving out to assist our two staff members. Although they arrived late for the meeting, Senior Benefits Advisors Peg Salisbury and Chanda Washington worked through lunch and into the evening, meeting with prospective retirees and explaining the benefits they're entitled to receive.

Although this is just one instance of our staff going "above and beyond," it illustrates two points – the dedication of our staff, and the great relationship we enjoy with our employers, who did not hesitate in coming to their rescue!

**Please turn to page 6**



**Chandra Washington (left) and Peg Salisbury are congratulated by ASRS Director Paul Matson for going "above and beyond" in their efforts to assist members.**

# Member

## Continued from the cover

percent for long-term disability coverage to 0.50 percent. So, the amount deducted depends on your salary. For example, if your annual salary is \$35,000 a year, your current annual contribution to the pension plan is \$700. Beginning July 1, your annual contribution will be \$1,820. Remember, this money is taken out *before* your state and federal taxes are calculated.

**Q.** *Can't anything be done about stopping or changing this increase?*

**A.** State law requires that active members contribute to the ASRS. If the ASRS fund is going to remain healthy, the increase is necessary. The new contribution rate was calculated by an actuary to ensure it is adequate to meet future benefits. For years, because of a booming economy, ASRS members actually enjoyed a lower-than-average contribution, putting into the fund less than the actual "normal cost" rate.

**Q.** *Is the employee bearing the entire brunt of the increase?*

**A.** No. The employer matches the employee contribution with an equal amount. The following table shows the contribution rate the employee pays and the employer pays now, and what it will be starting July 1:

	CURRENT			FROM JULY 1, 2003 FORWARD		
	Retirement	Long Term Disability	Total	Retirement	Long Term Disability	Total
<b>Employee</b>	2.00%	0.49%	2.49%	5.20%	0.50%	5.70%
<b>Employer</b>	2.00%	0.49%	2.49%	5.20%	0.50%	5.70%
<b>Total</b>	4.00%	0.98%	4.98%	10.40%	1.00%	11.40%

**Q.** *Will the contribution rate remain this high from now on?*

**A.** That's difficult to predict, but this increase should not be considered a "one-time" adjustment and will likely increase in future years. The contribution rate is re-evaluated every two years, and it can fluctuate depending on a variety of factors. For example, from 1976 to 1984, the contribution rate was 7 percent. During the 1990s, the contribution rate varied between 1.5 percent and 3.5 percent. It was low during this period because investments were performing well enough to cover the cost of pensions for retired members. This is the first increase in the contribution rate in 10 years.

**Q.** *How and when am I supposed to benefit from this increase?*

**A.** A healthy ASRS now means a healthy account when you retire, so you can benefit then. Also, the long-term disability contribution will benefit you if you suffer a long-term disability.

**Q.** *What if I don't plan to remain in state government that long? When do I benefit?*

**A.** When you terminate employment, you may receive all of your contributions plus interest in a refund. Interest is calculated at 8 percent per year. Additionally, if you have at least 5 years of service at the time you terminate, you are eligible to receive a portion of the employer's contributions. After 10 years of service, you are fully vested and entitled to the full amount of both your contributions, and your employer's contributions, plus interest.

**Q.** *Where can I find more information?*

**A.** Visit the ASRS web site at [www.asrs.state.az.us](http://www.asrs.state.az.us) to learn more about your retirement plan, including investment performance, benefits and financial planning information. If you have a question specific to your account, contact Member Services at 602-240-2000 in Phoenix, 520-239-3100 in Tucson, and outside the metro areas at 800-621-3777.

## ASRS Calendar

The Member Services Division of the ASRS conducts educational meetings throughout the year. Due to resource limitations, reservations are required and can easily be made by calling our offices at 602-240-2000 in Phoenix, 520-239-3100 in Tucson and 800-621-3778 outside Phoenix and Tucson.

**Seminars** are designed for members who are between one and five years from retirement while **Group Meetings** are offered to members who are within one year of retirement.

### Office Locations:

**Phoenix** - 3300 North Central Avenue, 10th Floor Board Room, Phoenix, AZ

**Tucson** - 7660 East Broadway Boulevard, Suite 108, Tucson, AZ

## July 2003

*Sunday Monday Tuesday Wednesday Thursday Friday Saturday*

		<b>1</b>	Phoenix <b>Group Meeting</b> 3 pm	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>6</b>	<b>7</b>	<b>8</b>	Phoenix <b>Group Meeting</b> 3 pm Tucson <b>Group Meeting</b> 9 am	<b>9</b>	<b>10</b>	Phoenix <b>Group Meeting</b> 9 am Tucson <b>Group Meeting</b> 9 am	Phoenix <b>Seminar</b> 9 am <b>12</b>
<b>13</b>	Tucson <b>Seminar</b> 1 pm <b>14</b>	<b>15</b>	Phoenix <b>Group Meeting</b> 3 pm <b>16</b>	Phoenix <b>Seminar</b> 9 am <b>17</b>	<b>18</b>	<b>19</b>	
<b>20</b>	<b>21</b>	Tucson <b>Group Meeting</b> 9 am <b>22</b>	Phoenix <b>Group Meeting</b> 3 pm <b>23</b>	<b>24</b>	<b>25</b>	Phoenix <b>Group Meeting</b> 9 am <b>26</b>	
<b>27</b>	<b>28</b>	<b>29</b>	Phoenix <b>Group Meeting</b> 3 pm <b>30</b>	Tucson <b>Group Meeting</b> 4 pm <b>31</b>			

Due to limited space, we are only showing the Seminars and Group Meetings for the month of July. However, if you go to our web site at [www.asrs.state.az.us](http://www.asrs.state.az.us) and click on "Calendar" you can view the entire schedule.

# Legislat

## Legislative Session Successful for the ASRS

Several pieces of legislation affecting the Arizona State Retirement System, including bills that strengthen benefits, protect the integrity of assets and streamline administrative processes were passed by the Arizona Legislature this session.

Under severe budget constraints, law makers passed new legislation that:

- Extends a rural health insurance subsidy for two years;
- Allows for service purchase recalculations that will benefit certain past military service purchasers;
- Provides for a health insurance subsidy to be passed on to a surviving beneficiary.



**Governor  
Janet Napolitano**

"I was pleased to see our legislators come together on several issues of importance to our retirees as well as the active members of the Retirement System," said Governor Janet Napolitano, who signed into law seven ASRS-related bills. "Extending the rural health insurance subsidy was very important to our rural retirees. We now need to work on a long-term solution to this issue."

"I believe our government workers who participate in the retirement system will benefit from the work done in this session."

Legislators had to analyze all proposed legislation this session carefully in the context of the overall state budget.

"Given the budget constraints we were facing, I think this was a good session in terms of retirement issues," according to Representative John Huppenthal, Chairman of the House Government & Retirement Committee. "We were able to move to protect the assets of the Retirement System, and provide for certain benefits without adding a lot of costs."

Senator Dean Martin, Chairman of the Senate Finance Committee, said lawmakers had ASRS members' best interests in mind as they dealt with legislation in the context of the overall state budget.



**Senator  
Dean Martin**

"Anytime you can move to add benefits and strengthen the Retirement System without significantly increasing costs, I'd say you've been successful," Senator Martin said. "The Retirement System provides an important benefit to so many people in our state and I and my colleagues are committed to keeping it healthy and strong."

These two committee chairs – Senator Martin and Representative Huppenthal – along with many other legislators, including Senator Marsha Arzberger, were instrumental in crafting legislation that strengthened ASRS services and benefits, but do not come with significant costs.

Only one bill – HB 2349, which extends the health insurance subsidy for rural retirees who don't have access to HMO care – carries a cost that will be factored into future contribution rates. A contribution rate increase of 0.01 percent will be needed to cover costs of the subsidy, according to the ASRS actuary. In this case, the legislation was crafted to include the subsidy while providing for a minimum out-of-pocket premium cost for the health care coverage.



**Representative  
John Huppenthal**

### **\* \* Official Notice \* \***

#### **Military Service Purchase Recalculation**

HB 2024 was passed by the Arizona State Legislature and signed into law by Governor Janet Napolitano this session. This legislation requires the Arizona State Retirement System to recalculate the cost of military service purchased prior to July 20, 1996 by members – active, retired or deceased – and to provide refunds, plus interest. The refunds are based on the difference in the costs of purchasing service prior to July 20, 1996, and the cost of service purchase after that date.

If you purchased military service prior to July 20, 1996, you may be entitled to a refund. If you have questions or need more information, please call the ASRS Member Services Division at 602-240-2000 in Phoenix, 520-239-3100 in Tucson, and outside the metro areas at 800-621-3778.

# Review

The following is a summary of legislation passed this session that affects the ASRS. All bills have been signed into law by the governor. If you'd like to view the bills in their entirety, visit the Arizona Legislature's Web site at [www.azleg.state.az.us](http://www.azleg.state.az.us)

## **HB 2023 Unpaid Contributions. Now under Arizona Revised Statute Chapter 132.**

Provides a member with 90 days to make payments after being notified that the employer has paid. If the member does not pay within 90 days, the member is responsible for accrued interest from that date.

Provides an employer with 90 days to make payments after being notified of the amount due. If the employer does not pay within 90 days, the employer is responsible for any accrued interest until the amount is paid in full.

Requires the person initiating the request to provide verification of past employment.

States that, beginning July 1, 2004, the employer is only responsible for making payments for service worked within 15 years of the date of the request.

Allows a member to purchase service that was worked prior to the 15-year limit as "other public service." Provides a member until July 1, 2004 to purchase service worked prior to the 15-year limit under current procedures.

States that an ASRS determination of eligibility is appealable to the ASRS Board.

## **HB 2024 Service Purchase Calculation. ARS Chapter 164.**

Defines "current annual compensation" used in calculating the cost of purchasing service credit as the greater of:

1. The sum of the 12 months of compensation prior to the request.
2. The sum of the 36 months of compensation prior to the request, divided by three.
3. If the member has retired from an ASRS employer, the average monthly compensation used to calculate the member's last pension, times 12.
4. The annualized compensation of the full pay period prior to the request.
5. The annualized compensation of the partial year prior to the request, if the member has less than 12 months of service.

Requires the ASRS to recalculate the cost of military service purchased by members (active, retired, or deceased) prior to July 20, 1996, and refund any amounts, plus interest.

Requires the ASRS to publish a notice of possible refund in 4 quarterly newsletters and 2 annual statements.

## **HB 2349 Rural Health Insurance Subsidy. ARS Chapter 247.**

Extends the rural health insurance subsidy for two-years.

Establishes minimum out-of-pocket premium costs for health coverage in order to be eligible for the rural subsidy.

Requires that the rural subsidy can only be applied to medical insurance premiums.

Provides that the family-rate rural subsidy is only available if the retiree has family medical coverage.

Requires the ASRS to provide a report to the Legislature on accessibility and affordability of health insurance coverage for retirees.

Appropriates \$183,000 from the ASRS administration account to the ASRS for implementation costs.

## **HB 2455 Modified DROP. ARS Chapter 196.**

Provides for technical changes to the Modified DROP program.

## **SB 1037 Health Insurance Subsidy for Surviving Spouses. ARS Chapter 171.**

Provides a retiring member who selects a joint and survivor or period certain annuity the ability to select an optional health insurance subsidy that continues to the contingent annuitant after the member's death.

Appropriates \$537,000 from the ASRS administration account to the ASRS for implementation costs.

## **SB 1224 Supplemental Defined Contribution Plan procedures. ARS Chapter 250.**

Makes changes to the supplemental defined contribution plan in order to conform to IRS requirements.

Requires an employee to make an election to participate in the Plan within two years after the employee first becomes eligible to participate in the Plan.

States that an election to participate in the Plan is irrevocable and continues for the remainder of employment.

Allows the employer to annually increase or decrease the employee contributions in increments of one per cent up to the maximum allowed by law OR requires the employee to make one-time irrevocable elections of the employee's contribution amount.

Clarifies the procedures for employer matching contributions.

## **SB 1225 Investment Management Requirement. ARS Chapter 63.**

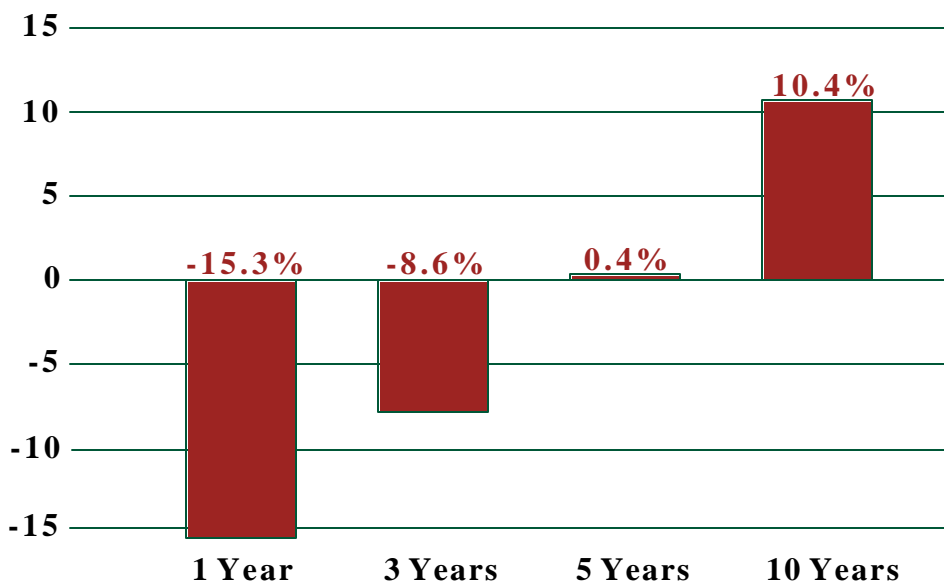
Amends A.R.S. 38-718 to correct for the change in name of the organization responsible for awarding the chartered financial analyst designation from "institute of chartered financial analysts" to the "Association for Investment Management and Research."

## ASRS Investment Rates of Return

The ASRS Investment Review Committee (IRC) meets monthly to discuss fund performance and to review investment procedures, requests and mandates. The IRC is comprised of members of the ASRS Board, many of whom have investment background. Members of the public are welcome to attend the meetings.

If you would like to attend an ASRS IRC meeting, feel free to visit our web site at [www.asrs.state.az.us](http://www.asrs.state.az.us) under the "About Us" section to view the meeting schedule.

### Rates of return for the period ending March 31, 2003



## Continued from the cover

These two ASRS employees are just two of the many state employees who Governor Janet Napolitano acknowledged when she issued a proclamation commemorating May 7 as "State Employee Recognition Day." I took this opportunity to be sure our staff understood just how much they are appreciated. They really do attempt to provide the best service possible to you our members.

July 1 marks the 50<sup>th</sup> Anniversary of the Arizona State Retirement System. What began as a plan to provide a small monthly pension check to retired teachers has grown to one of the premier public retirement systems in the nation. Today the ASRS has approximately 373,000 members, including 60,000 retirees, and a portfolio just over \$17 billion.

Earlier this year, the ASRS was ranked one of the Top Ten public retirement plans in a nation-wide survey conducted by an independent investment advisor company.

Our pledge to our members is to continue to find ways to better serve you. In the meantime, if you have suggestions or comments related to our service, please don't hesitate to contact us.

## Permanent Benefit Increase for 2003

On July 1, the Arizona State Retirement System will include in retirement annuity payments the new Permanent Benefit Increase (PBI). This formerly referred to as the Cost of Living Adjustments or COLA. The money for the benefit is generated by excess earnings on the fund as determined by our actuary.

This increase is for members who retired from the ASRS Defined Benefit Plan on or before July 31, 2002.

The formula to determine your monthly PBI is \$35.43 times your total years of credited service at retirement, divided by 12 months.

This amount is shown on your monthly check stub or deposit summary as PBI/EPBI. If you have been receiving the PBI/EPBI amount in previous years, this new amount is added to the previous amount for a new total PBI/EPBI.

In addition, some members may be entitled to an Enhanced PBI. The Enhanced PBI is for retirees who have at least 10 years of credited service at the time of retirement and who have been retired from the ASRS Defined Benefit Plan for 5 years or longer. This enhancement provides additional benefit increases based on your total number of years since your original retirement date. The Enhanced PBI ranges from \$8.74 to \$52.44 per month, depending on the number of years retired. This amount is also included in the PBI/EPBI amount shown on your deposit summary or check stub.

If you have questions about the PBI or Enhanced PBI, please contact Member Services. Additional information, as well as a special PBI Calculator, is available on our web site at [www.asrs.state.az.us](http://www.asrs.state.az.us).



# Information

## Return to Work Program Taps Talents of Retirees

With more people staying active well into traditional retirement years, and many wanting to continue working, the Arizona State Retirement System's Return to Work option has become a popular benefit.

Although it's been available in some form since the mid 1970s, it was just two years ago that the Arizona Legislature passed a law that added flexibility to the program, allowing workers who retire at normal retirement or who take an early retirement option the opportunity to return to work at an ASRS member employer while still receiving their pension benefits.

The Legislature realizes that there is an abundance of talent among our retirees and providing an option allowing them to return to work after their official retirement is a real benefit to our state," said State Representative Tom Boone, vice chairman of the House Government & Retirement Committee. "This has proven to be especially true in the field of education, where teachers who retire, may now choose to go back to the classroom and continue sharing their talents with our children."

In fact, it was the chronic teacher shortage that served as the impetus for the current Return to Work rule. The option, however, is now available to all ASRS members.

Under the program, members who retire at normal retirement (age 65, or at age 62 with 10 years of service, or at 80 points) can return to work the day after retirement and work less than 20 hours a week while continuing to receive their pension benefits. Members who have been retired for 12 months can return to work any amount of time while continuing to receive benefits.

A member who elects to receive early retirement benefits can also return to work under certain conditions. Early retirees must wait 60 days before returning to work and can work less than 20 hours. There are also options for working over 20 hours.

If you'd like details on the ASRS Return to Work benefit, visit our web site at [www.asrs.state.az.us](http://www.asrs.state.az.us) or contact our Member Services Division. They can analyze your individual case, and provide you with various options to meet your needs.

### ASRS Board

Karl Polen Jr., Chairman, Phoenix  
Public; term expires 2004

Norman Miller, Vice-Chairman  
Phoenix  
Public; term expires 2004

Charlotte Borchert, Chandler  
Retirees; term expires 2005

Jim Bruner, Scottsdale  
Public; term expires 2005

Dr. Chuck Essigs, Mesa  
Educator; term expires 2004

Keith Meredith, Tucson  
Member at Large; term expires 2006

N. Carl Tenney,  
Town of Chino Valley  
Political Subdivisions;  
term expires 2005

Lawrence Trachtenberg,  
Scottsdale  
Public; term expires 2006

Steven Zeman, Phoenix  
State Employees;  
term expires 2006

### Executive Staff

Paul Matson, Director

Anthony Guarino, Deputy Director,  
Chief Operations Officer

Richard Stephenson  
Deputy Director, External Affairs

Gary Dokes  
Acting Chief Investment Officer

### ASRS Mission Statement

The mission of the Arizona State Retirement System is to contribute towards its members' long-term financial security by providing retirement, disability, survivors' and health insurance benefits; and by counseling and disseminating information to its members.

## COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write to the ASRS Director, Paul Matson, with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:  
Paul Matson, Director  
Arizona State Retirement System  
P.O. Box 33910  
Phoenix, AZ 85067-3910

ASRS *Financial Horizons* is published quarterly for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Editor  
Financial Horizons  
P.O. Box 33910  
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Maurah Harrison, ADA Coordinator, at (602) 240-5312. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

## CONTACT US!

**ON THE WEB:**  
[www.asrs.state.az.us](http://www.asrs.state.az.us)

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Tucson, AZ 85710-3776  
(520) 239-3100

**OUTSIDE METRO PHOENIX  
AND TUCSON:**  
Call Toll Free at (800) 621-3778

## Three new members join ASRS Board

The Arizona Senate confirmed the appointment of three new members to the Arizona State Retirement System Board on Wednesday, April 16.

The three new members appointed by Gov. Janet Napolitano are Keith Meredith of Tucson; Lawrence Trachtenberg of Scottsdale, and Steven Zeman of Phoenix.

Dr. Meredith is retired from the University of Arizona, where he served on the staff for Educational Psychology. He also served as Director of Gerontological Studies and Associate Director of the Arizona Center on Aging at the UofA College of Medicine, and continues as an adjunct associate professor of educational psychology.

Mr. Trachtenberg currently serves as Executive Vice President, Chief Financial Officer and General Counsel for Mobile Mini Inc., where he is responsible for all accounting, banking and related financial matters.

Mr. Zeman currently serves as an auditor with the Arizona Department of Transportation. He is responsible for performing audits of taxpayers' records and verifying reports and payments related to fuel taxes and vehicle registration fees.

The nine-member Arizona State Retirement System Board meets monthly. Agendas and minutes for the public meetings can be found on the ASRS Web site.